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SUBJECT: CAPE VERDE RECORDS LOWEST INFLATION RATE OF THE LAST FOR YEARS

¶1. (U) Cape Verde recorded an overall inflation rate of just 1% in 2009, the lowest annual inflation rate since 2005 and a 5.8% reduction from 2008's rate. Cape Verde's National Statistics Institute announced the news this week and noted the low inflation was as a result of a good harvest year paired with lower petroleum and commodity prices. In particular, the negative variation on average of the consumer price index (CPI) reflected price drops in the following sectors: communications -11.2 %; transportation -9.9%; and leisure and recreation -7.6%.

¶2. (U) Over the last five years, Cape Verde has experienced some noteworthy variation in inflation rates reflecting Cape Verde's vulnerability to exogenous shocks and to international market fluctuations:

2005: 0.4 %
2006: 4.8 %
2007: 4.4 %
2008: 6.8 %
2009: 1.0 %

¶3. The GOCV's expectation for 2010 is that inflation will continue to be low and stay close to the 1-2% range. Prices are expected to increase slightly in 2010 in line with higher commodity prices and more robust economic activity. Embassy anticipates the inflation rate to remain low, but to exceed GOCV predictions, based on the heavy debt burden included in the 2010 budget and the high import penetration as it persists in reflecting for the most part the supply side developments, notably import prices and exogenous shocks.

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